

**REPORT OF THE AUDIT OF THE
WASHINGTON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WASHINGTON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the Washington County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$275,588 from the beginning of the year, resulting in a cash surplus of \$890,067 as of June 30, 2003.

Debt Obligations:

Capital lease principal agreements totaled \$118,202 as of June 30, 2003. Future principal and interest payments of \$138,370 are needed to meet these obligations.

Report Comment:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Deposits:

As of August 31, 2002, \$286,283 of the fiscal court's deposits were uninsured and uncollateralized by bank securities or bonds.

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CRIT LUALLEN
Auditor of Public Accounts

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John A. Settles, Washington County Judge/Executive
Members of the Washington County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Washington County, Kentucky, as of June 30, 2003, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Washington County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Washington County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising primarily from cash transactions as of June 30, 2003, of Washington County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.

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AN EQUAL OPPORTUNITY EMPLOYER M/F/D



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John A. Settles, Washington County Judge/Executive
Members of the Washington County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated November 3, 2003, on our consideration of Washington County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Washington County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comment:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 3, 2003

WASHINGTON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

John A. Settles	County Judge/Executive
Harold Simeon Cambron	Magistrate
Billy Riney, Jr.	Magistrate
Terry Lynn Tingle	Magistrate
Ernest Reed Goff	Magistrate
Hal B. Goode	Magistrate
Edward Gregory Simms	Magistrate

Other Elected Officials:

Hamilton B. Simms	County Attorney
Steven Hardin	Jailer
Glenn Black	County Clerk
George Graves	Circuit Court Clerk
Tommy A. Bartley	Sheriff
Margaret A. Platt	Property Valuation Administrator
Freddie Carey	Coroner

Appointed Personnel:

Carla D. Hardin	County Treasurer
George Ann Palmer	Occupational Tax Collector
Sheila D. Smith	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

WASHINGTON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

Governmental
Fund Type

General

Assets and Other Resources

Assets

Cash and Cash Equivalents	\$	<u>898,535</u>
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Total Assets	\$	<u>898,535</u>
--------------	----	----------------

Other Resources

Amounts to Be Provided
in Future Years for:

Capital Lease	\$	<u>118,202</u>
---------------	----	----------------

Total Other Resources	\$	<u>118,202</u>
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Total Assets and Other Resources	\$	<u><u>1,016,737</u></u>
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The accompanying notes are an integral part of the financial statements.

WASHINGTON COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

	<u>Fund Type</u>
	<u>General</u>
<u>Liabilities and Equity</u>	
<u>Liabilities</u>	
Capital Lease (Note 4)	\$ 118,202
Payroll Liabilities	<u>8,468</u>
Total Liabilities	<u>\$ 126,670</u>
<u>Equity</u>	
Fund Balances:	
Reserved	\$ 15,065
Unreserved	<u>875,002</u>
Total Equity	<u>\$ 890,067</u>
Total Liabilities and Equity	<u><u>\$ 1,016,737</u></u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

WASHINGTON COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2003

	<u>General Fund Type</u>		
	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Jail Fund</u>
<u>Cash Receipts</u>			
Schedule of Operating Revenue	\$ 2,161,008	\$ 1,031,069	\$ 39,263
Other Financing Sources:			
Transfers In			266,400
Lease-Purchase Proceeds	25,000		
Kentucky Advance Revenue Program	455,200		
Total Cash Receipts	<u>\$ 2,641,208</u>	<u>\$ 1,031,069</u>	<u>\$ 305,663</u>
<u>Cash Disbursements</u>			
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,737,573	\$ 924,544	\$ 304,189
Other Financing Uses:			
Transfers Out	266,400		
Capital Lease Principal Paid	10,318		
Kentucky Advance Revenue Program			
Principal Paid	455,200		
Interest Paid	3,867		
Total Cash Disbursements	<u>\$ 2,473,358</u>	<u>\$ 924,544</u>	<u>\$ 304,189</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 167,850	\$ 106,525	\$ 1,474
Cash Balance - July 1, 2002	<u>414,467</u>	<u>167,027</u>	<u>3,177</u>
Cash Balance - June 30, 2003	<u>\$ 582,317</u>	<u>\$ 273,552</u>	<u>\$ 4,651</u>

The accompanying notes are an integral part of the financial statements.

WASHINGTON COUNTY
 STATEMENT OF CASH RECEIPTS,
 CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

<u>General Fund Type</u>		
Local Government Economic Assistance Fund	Jimtown Redevelopment Project Grant Fund	Totals (Memorandum Only)
\$ 40,703	\$ 467,678	\$ 3,739,721
		266,400
		25,000
		455,200
<u>\$ 40,703</u>	<u>\$ 467,678</u>	<u>\$ 4,486,321</u>
\$ 56,029	\$ 452,613	\$ 3,474,948
		266,400
		10,318
		455,200
		3,867
<u>\$ 56,029</u>	<u>\$ 452,613</u>	<u>\$ 4,210,733</u>
\$ (15,326)	\$ 15,065	\$ 275,588
29,808		614,479
<u>\$ 14,482</u>	<u>\$ 15,065</u>	<u>\$ 890,067</u>

The accompanying notes are an integral part of the financial statements.

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Washington County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Washington County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Washington County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Washington County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Washington County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, and the Jintown Redevelopment Project Grant Fund.

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Washington County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following is considered a related organization of Washington County Fiscal Court: Washington County Library.

WASHINGTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$286,283 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2002.

	<u>Bank Balance</u>
FDIC insured	\$ 325,362
Collateralized with securities held by the county's agent in the county's name	666,334
Uncollateralized and uninsured	<u>286,283</u>
Total	<u><u>\$ 1,277,979</u></u>

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Capital Leases Agreements

A. Mackville Fire Truck

On November 26, 1997, the fiscal court on behalf of the Mackville Fire Department entered into an agreement with the Kentucky Area Development Districts Financing Trust in the amount of \$75,000 at an interest rate of 6.20% for the acquisition of a fire truck. The lease term is for 10 years with balance to be paid in full on May 20, 2008. The Mackville Fire Department makes the principal and interest payments to Fifth Third Bank (the trustee). Principal payment requirements and scheduled interest for the remaining term of the agreement are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 4,087	\$ 5,000
2005	3,775	5,000
2006	3,463	5,000
2007	3,151	5,000
2008	<u>2,839</u>	<u>48,000</u>
Totals	<u>\$ 17,315</u>	<u>\$ 68,000</u>

B. Willisburg Fire Truck

On August 15, 1995, the fiscal court on behalf of the Willisburg Fire Department entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$42,000 at an interest rate of 4.58% for the acquisition of a fire truck. The lease term is for 10 years with balance to be paid in full on September 20, 2005. During the fiscal year, the county received \$5,594 in interest and principal from the Willisburg Fire Department. The county then paid the debt service payments to Bank One (the trustee). Principal payment requirements and scheduled interest for the remaining term of the agreement are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 504	\$ 4,842
2005	228	5,058
2006	<u>12</u>	<u>1,302</u>
Totals	<u>\$ 744</u>	<u>\$ 11,202</u>

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Capital Leases Agreements (Continued)

C. Rescue Vehicle

On February 10, 1999, the fiscal court on behalf of the Washington County Rescue Squad entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$50,000 at an interest rate of 4.10% for the acquisition of a rescue truck. The lease term is for 7 years with balance to be paid in full on January 20, 2006. During the fiscal year, the county received \$6,670 in interest and principal from the Washington County Rescue Squad. The county then paid the debt service payments to Bank One (the trustee). Principal payment requirements and scheduled interest for the remaining term of the agreement are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 590	\$ 6,000
2005	261	7,000
2006	30	1,000
Totals	<u>\$ 881</u>	<u>\$ 14,000</u>

D. Rescue Vehicle

On June 11, 2003, the fiscal court on behalf of the Willisburg Fire Department entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$25,000 at a variable interest rate for the acquisition of a rescue truck. The lease term is for 3 years with balance to be paid in full on January 20, 2006. The Willisburg Fire Department will make interest and principal payments to the county. The County will then make payments to National City Bank (the trustee). Principal payment requirements and scheduled interest for the term of the agreement are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 689	\$ 8,084
2005	397	8,331
2006	142	8,585
Totals	<u>\$ 1,228</u>	<u>\$ 25,000</u>

Note 5. Insurance

For the fiscal year ended June 30, 2003, Washington County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

WASHINGTON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	Budgeted Operating Revenue	Actual Operating Revenue	Over (Under) Budget
<u>General Fund Type</u>			
General Fund	\$ 1,577,563	\$ 2,161,008	\$ 583,445
Road and Bridge Fund	1,063,786	1,031,069	(32,717)
Jail Fund	319,659	39,263	(280,396)
Local Government Economic Assistance Fund	36,000	40,703	4,703
Jimtown Redevelopment Project Grant Fund	784,000	467,678	(316,322)
Totals	<u>\$ 3,781,008</u>	<u>\$ 3,739,721</u>	<u>\$ (41,287)</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 3,781,008
Add: Budgeted Prior Year Surplus	612,423
Less: Other Financing Uses	<u>(10,596)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 4,382,835</u>

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SCHEDULE OF OPERATING REVENUE

WASHINGTON COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Revenue Categories</u>	<u>General Fund Type</u>
Taxes	\$ 1,517,460
Excess Fees	10,110
Licenses and Permits	23,616
Intergovernmental Revenues	1,563,650
Charges for Services	370,991
Miscellaneous Revenues	235,968
Interest Earned	<u>17,926</u>
Total Operating Revenue	<u><u>\$ 3,739,721</u></u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

WASHINGTON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 680,112	\$ 616,174	\$ 63,938
Protection to Persons and Property	1,060,434	957,565	102,869
General Health and Sanitation	145,902	137,410	8,492
Social Services	807,235	471,500	335,735
Recreation and Culture	19,000	2,478	16,522
Transportation Facilities and Services	17,130	3,249	13,881
Roads	942,359	881,624	60,735
Bus Services	25,000	22,535	2,465
Debt Service	1,975	1,381	594
Capital Projects	71,000		71,000
Administration	612,688	381,032	231,656
Total Operating Budget - General Fund Type	\$ 4,382,835	\$ 3,474,948	\$ 907,887
Other Financing Uses:			
Capital Lease Agreement- Principal on Lease	10,596	10,318	278
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 4,393,431</u>	<u>\$ 3,485,266</u>	<u>\$ 908,165</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
Auditor of Public Accounts

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable John A. Settles, Washington County Judge/Executive

Members of the Washington County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Washington County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated November 3, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Washington County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

- Reference Number 2003-1: The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Washington County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 3, 2003

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



CRIT LUALLEN
Auditor of Public Accounts

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Members of the Washington County Fiscal Court

**Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Washington County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Washington County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Washington County's management. Our responsibility is to express an opinion on Washington County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Washington County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Washington County's compliance with those requirements.

In our opinion, Washington County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Washington County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Washington County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 3, 2003

FINDINGS AND QUESTIONED COSTS

WASHINGTON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2003

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Washington County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Washington County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Washington County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Washington County reported in Part C of this schedule.
7. The program tested as a major program was: Jimtown Project (CFDA #14.228)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Washington County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

Reference Number 2003-1

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On August 31, 2002, \$286,283 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive John A. Settles Response:

Will notify bank when making large county road aid or other deposits.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

WASHINGTON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
 U.S. Department of Housing and <u>Urban Development</u>		
 Passed-Through State Department for Local Government:		
Community Development Block Grant- State-Administered Small Cities Program (CFDA #14.228)	00-002	\$ 452,614
 <u>U. S. Federal Emergency Management Agency</u>		
 Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grant- Coordinator Salary (CFDA #83.503)	Unknown	<u>3,462</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 456,076</u></u>

WASHINGTON COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Washington County, Kentucky and is presented on the modified cash basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local, Governments, and Non-Profit Organizations.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM


WASHINGTON COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

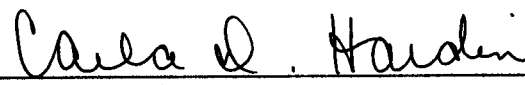
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
WASHINGTON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Washington County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



John A. Settles
County Judge/Executive



Carla D. Hardin
County Treasurer

